Chairman's introduction

Nicholas Thompson

"The proposals to enter the UK REIT regime and the change in the listing status of the Company, and the rationale for these, are set out both within this Report and the shareholder circular issued separately."

Dear Shareholder

I am pleased to introduce our 2018 Corporate Governance Report.

As I have discussed earlier, 2018 marks an important year in the evolution of this business, and there are some significant implications for the governance of the Company which are set out in this section of the Annual Report.

The proposals to enter the UK REIT regime and the change in the listing status of the Company, and the rationale for these, are set out both within this Report and the shareholder circular issued separately. If the changes are approved and we are no longer an investment company then the internal governance of the Company will be amended to reflect the new status.

The Board will remain fully responsible for the strategy and direction of the Company. Its aim is to create and deliver long-term value for shareholders, and, as a commercial company, this will be through the business strategy set by the Board rather than the current investment policy. The Chief Executive will have authority delegated to him to run the business on a day-to-day basis, with a clear division of responsibilities between him and the Board. This will replace the existing investment management arrangements with Picton Capital Limited. The composition of the Board has been considered by the Nominations Committee, and some more detail around this is included in their report for the year.

Our Board Committee structure will be unchanged, with clear terms of reference. However, we intend to establish an Executive Committee, to support the Chief Executive in the running of the business. This Committee will comprise the Chief Executive and other members of senior management and will be accountable to the Board in delivering the business strategy.

I am pleased to welcome Mark Batten to the Board. Mark will take over as Chairman of the Audit and Risk Committee this year, as Robert Sinclair will be stepping down from the Board. I would like to record our appreciation for the outstanding contribution that Robert has made to the business during his long tenure on the Board.

Vic Holmes has notified us that he intends to step down from the Board prior to the Company moving its management to the UK, and again I would like to record our appreciation for all that he has done for the Company over the last five years.

In addition, I am pleased to announce that Andrew Dewhirst, currently the Finance Director of Picton Capital Limited, has agreed to join the Board from 1 October and together with Michael Morris will be the Executive Directors.

The work of the Remuneration Committee this year has included the review of a new remuneration policy, to include executive directors. We intend to operate this new policy for 2018/19, and it will be put to shareholders at this year's Annual General Meeting.

As a Board we remain committed to the principles of good corporate governance and aim to be clear and transparent in our dealings with shareholders. Should our proposals to become a UK REIT be approved, we intend to hold future Annual General Meetings in the UK, and I look forward to further engagement with shareholders then.

Nicholas Thompson
Chairman

4 June 2018

Board of directors

With a breadth and depth of experience across property and fund management, our Board leads with integrity and transparency.

Nicholas Thompson
Chairman

Age 69, was formerly Director and Head of Fund and Investment Management at Prudential Property Investment Management and has served on the Board as Chairman since 2005. He is currently Chairman of MSCI IPD's UK & Ireland Consultative Group, a director of the Lend Lease Retail Partnership and an independent director of the Association of Real Estate Funds. He is a Fellow of the Royal Institution of Chartered Surveyors and a member of the Property and Infrastructure Forum of the Association of Investment Companies.

Robert Sinclair
Chairman of the Audit and Risk Committee

Age 68, is Managing Director of the Guernsey based Artemis Group and a director of a number of investment fund management companies and investment funds associated with clients of that Group. He has served on the Board since 2005. Robert is Chairman of Schroder Oriental Income Fund Limited, a director of Chariot Oil & Gas Limited, a director of EF Realisation Limited and a director of Rainbow Rare Earths Limited. He is a Fellow of the Institute of Chartered Accountants in England and Wales, and a member of the Institute of Chartered Accountants of Scotland.

Roger Lewis
Chairman of the Property Valuation Committee

Age 70, has extensive experience in the property sector, most recently as a director of Berkeley Group Holdings Plc for over 15 years, the last eight of which were as Chairman, a position from which he retired at the end of July 2007. He subsequently acted as a consultant to the Berkeley Group and is currently a non-executive director of three Jersey based subsidiaries of the Berkeley Group. Prior to this, he was UK Group Chief Executive Officer of Crest Nicholson Group PLC from 1983 to 1991. He is also currently a director of Grand Harbour Marina Plc (Malta), of Camper and Nicholsons Marina Investments Limited and of Cambian Global Timberland Limited. He was appointed to the Board in 2010.

Vic Holmes
Chairman of the Remuneration Committee

Age 61, was Chief Executive of Northern Trust's businesses in the Channel Islands until he retired from full-time employment in November 2011. He joined the Board on 1 January 2013. He serves as a director for a number of companies involved in the funds sector, for groups such as Permira, Ashmore, DBAG, and GAM. He is also Chairman of Generali Worldwide Insurance Company Limited, a director of Next Energy Solar Fund Limited and Chairman of Highbridge Multi-Strategy Fund Limited (both London listed companies), and was Chairman of the Guernsey Investment Funds Association from April 2013 until April 2015. He is a Fellow of the Association of Chartered Certified Accountants.

Mark Batten

Age 61, was a partner in PricewaterhouseCoopers LLP for over 25 years, specialising in structuring and restructuring transactions predominantly in financial services and real estate. He is currently on the board of, amongst others, the Brompton and Harefield Hospital Foundation Trust and a senior adviser to UK Government Investments, an arm of HM Treasury. He is an Associate of the Institute of Chartered Accountants in England and Wales and was appointed to the Board on 1 October 2017.

Michael Morris

Age 45, was appointed to the Board on 1 October 2015 and has over 24 years' experience in the UK commercial property sector. He has worked with the Group since launch in 2005 and is also Chief Executive of its UK investment management subsidiary, Picton Capital Limited. Within this role he is responsible for the Group's Investment Management operation, overseeing the implementation of all aspects of the Company's investment strategy. Prior to this, he worked in private practice, becoming a Senior Director and Fund Manager at ING Real Estate Investment Management (UK) Limited. He is a member of the Investment Property Forum and sits on the AIC's Property and Infrastructure Forum. He has also obtained the Investment Management Certificate and the IPF Diploma in Property Investment.

OUR TEAM

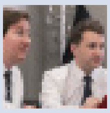
The investment management team at Picton Capital Limited comprises 10 permanent employees, and includes five real estate professionals, three qualified accountants and two further support employees.

Michael Morris
Chief Executive

Michael, age 45, is Chief Executive and is also a non-executive Director of Picton Property Income Limited. He is responsible for devising and overseeing the implementation of all aspects of the Company's investment strategy.

Andrew Dewhirst
Finance Director

Andrew, age 58, joined as Finance Director in March 2011. Previously he was Director of Client Accounting at ING Real Estate Investment Management (UK) Limited, a role he had held since January 2006. At ING he was responsible for the accounting and administration of all the UK real estate vehicles and separate client accounts. He has over 25 years' experience in the real estate and financial services sector. Andrew is an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Investment Property Forum.



Jay Cable
Director

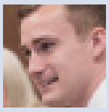
Jay, age 40, is Head of Asset Management. In this role he is responsible for overseeing all asset management activities in respect of the Group's property portfolio. Formerly he was Director at ING Real Estate Investment Management (UK) Limited, and has worked with the Group since it launched in 2005. He has over 18 years of real estate experience and is a member of the Royal Institution of Chartered Surveyors and of the Investment Property Forum.

Fraser D'Arcy
Investment Director

Fraser, age 42, joined as Investment Director in January 2013 and is primarily responsible for transactional activity within the portfolio to manage effective recycling of capital. Previously he was an Investment Surveyor at Threadneedle Property Investments Limited from 2006. He has 18 years of investment experience in UK real estate, is a Member of the Royal Institution of Chartered Surveyors, has obtained the Investment Management Certificate and is a member of the Investment Property Forum.

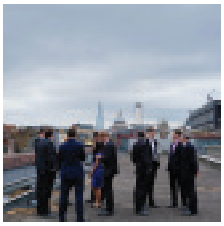
Tim Hamlin
Senior Asset Manager

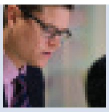
Tim is a Senior Asset Manager and a member of the Royal Institution of Chartered Surveyors and has obtained the Investment Management Certificate. He is responsible for the formulation and implementation of asset level business plans in line with the overall portfolio strategy. He has ten years of real estate experience and eight years working with the Group's portfolio.



Adam Green
Senior Accountant

Adam is a Senior Accountant joining from Invista Real Estate in January 2012. He is a member of the Association of Chartered Certified Accountants and assists with accounting and financial reporting for the Group.



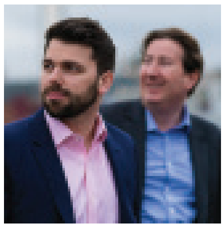


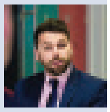
James Forman
Financial Controller

James is the Financial Controller. In this role he is responsible for all the accounting and financial reporting for the Group. He has worked with the Group since 2005 and has 18 years' experience in the real estate sector. James is a Fellow of the Association of Chartered Certified Accountants.

Sarah Barnes
Office Manager

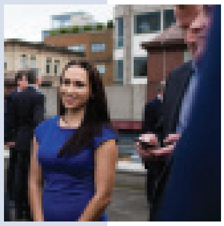
Sarah is responsible for the day-to-day management of the office and oversees all aspects of administration within the Company. She joined in June 2014 and has completed the IPF Introduction to Property Investment module.





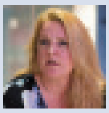
Matthew Barker
Asset Manager

Matthew joined as an Asset Manager in August 2014 from JLL. He is a member of the Royal Institution of Chartered Surveyors and is responsible for the asset management and performance of the property portfolio.



Melissa Ricardo
Team Secretary

Melissa joined in January 2017 and provides administration support to the team.



Corporate governance report

As a member of the Association of Investment Companies ("AIC"), the Company has been reporting against the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") and the accompanying AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). In these financial statements, the Company is reporting against the July 2016 AIC Code and AIC Guide which take into account updates made to the UK Corporate Governance Code in April 2016.

The Board retains full responsibility for the direction and control of the Company, including investment policy and strategy, dividend policy and gearing.

The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Financial Reporting Council has confirmed that, by following the AIC Guide, investment company boards should fully meet their obligations in relation to the UK Code.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to shareholders.

Except as disclosed below, the Company has complied throughout the year with the recommendations of the AIC Code and the relevant provisions of the UK Code.

By complying with the AIC Code and the UK Code, the Board considers that it is in compliance with the provisions of the Code of Corporate Governance published by the Guernsey Financial Services Commission.

The Board

The Board retains full responsibility for the direction and control of the Company, including investment policy and strategy, dividend policy and gearing. The Board meets regularly, normally quarterly, and more frequently if necessary.

The Board has delegated responsibility for operational matters under an Investment Management Agreement to its Investment Manager, Picton Capital Limited.

Composition

The Company is led and controlled by a Board composed of non-executive Directors, all of whom have wide experience. With the exception of Michael Morris, who is the Chief Executive of the Group's Investment Manager, all Directors are also considered to be independent. Although two members of the Board have now served for more than a term of nine years, they are considered to be independent in character and judgement.

The Articles of Association stipulate that all new Directors shall retire at their first Annual General Meeting and offer themselves for reappointment. One-third, or the number nearest to but not exceeding one-third, of the Directors shall retire and offer themselves for reappointment at each subsequent Annual General Meeting.

The Board considers that the length of time each Director, including the Chairman, serves on the Board should not be limited and therefore has not set a finite tenure policy. However, the Board has determined that any Director who has served for more than nine years will offer themselves for reappointment on an annual basis. The Board believes that it is in the shareholders' best interests for the Chairman to be the point of contact for all matters relating to the governance of the Company and as such has not appointed a senior independent non-executive Director.

Committees

The Board has established four Committees: Audit and Risk, Remuneration, Property Valuation and Nominations. The terms of reference for these Committees are available on the Company's website. Given Michael Morris's position as Chief Executive of the Company's Investment Manager, the Board has agreed that he will not serve on any of the Board Committees.

Attendance at Board and Committee meetings

	Board (4 meetings)	Audit and Risk (2 meetings)	Remuneration (3 meetings)	Property Valuation (4 meetings)	Nominations (4 meetings)
Nicholas Thompson	4	2	3	4	4
Robert Sinclair	4	2	3	4	4
Roger Lewis	3	2	2	4	3
Vic Holmes	4	2	3	3	4
Michael Morris	4	–	–	–	–
Mark Batten	2	1	2	1	2

The above meetings were the scheduled Board and Committee meetings. Additional meetings were held to deal with other matters as required and are not included above. Mark Batten joined the Board on 1 October 2017 and has attended both Board meetings since then.

Evaluation

The performance of the Board and its Committees is evaluated on an annual basis. This is carried out by external consultants every three years and internally by the Directors for intervening years. The next external evaluation will be carried out later this year, by Trust Associates, who have carried out previous external evaluations. The previous internal evaluation was carried out in February 2017, using questionnaires prepared by the Company's Administrator.

Internal control and risk management

The Directors acknowledge that they are responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. They have therefore established an ongoing process designed to meet the particular needs of the Group in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. Such review procedures have been in place throughout the full financial year, and up to the date of the approval of the financial statements, and the Board is satisfied with their effectiveness.

This process involves a review by the Board of the control environment within the Group's service providers to ensure that the Group's requirements are met.

The Group does not have an internal audit function. Following the change to internalised management, and given the scale of the Group's operations, the Board has determined that a separate internal audit function is unnecessary and that additional procedures carried out by the external auditor in conjunction with the audit of the Group's accounts will provide the Board with sufficient assurance regarding the internal control systems in place. The Board continues to place reliance on the Administrator's internal control systems.

These systems are designed to ensure effective and efficient operations, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows, therefore, that the systems of internal control can only provide reasonable, but not absolute, assurance against the risk of material misstatement or loss.

The effectiveness of the internal control systems is reviewed annually by the Board and the Audit and Risk Committee. The Audit and Risk Committee has a discussion annually with the auditor to ensure that there are no issues of concern in relation to the audit opinion on the financial statements and, if necessary, representatives of the Investment Manager would be excluded from that discussion.

Relations with shareholders

In conjunction with the Board, the Administrator keeps under review the register of members of the Company. All shareholders are encouraged to participate in the Company's Annual General Meeting.

All Directors normally attend the Annual General Meeting, at which shareholders have the opportunity to ask questions and discuss matters with the Directors and senior management. Investors are able to direct any questions for the Board via the Secretary.

The Chairman regularly attends analyst meetings and is available to meet investors if requested. The outcome of these meetings is communicated to the rest of the Board.

Nominations committee report

Nicholas thompson

The Nominations Committee is chaired by Nicholas Thompson. The other members of the Committee are Vic Holmes, Robert Sinclair, Roger Lewis and Mark Batten.

The role of the Committee is to consider the size, structure and composition of the Board to ensure that it has the right balance of skills, knowledge, experience and diversity to carry out its duties and provide effective leadership. In making any new appointment the Board will consider a number of factors, but principally the skills and experience that will be relevant to the specific role and that will complement the existing Board members.

The Committee ensures that the appointment process is formal, rigorous and transparent.

As has been explained earlier in this Report, we will be bringing forward to shareholders proposals to enter the UK REIT regime from 1 October 2018. Linked with this, we are also proposing to change the listing status of the Company from that of an investment company to a commercial company, which is in keeping with most internally managed UK REITs and will be consistent with executive management being exercised by the Board in the UK. Assuming these changes are approved, we will move to a more traditional Board structure comprising executive and non-executive directors.

The role of the Committee is to consider the size, structure and composition of the Board to ensure that it has the right balance of skills, knowledge, experience and diversity to carry out its duties.

Terms of reference

The Committee's terms of reference include consideration of the following issues:

- Review and make recommendations regarding the size and composition of the Board;
- Consider and make recommendations regarding succession planning for the Board and senior management;
- Identify and nominate candidates to fill Board vacancies as they arise;
- Review the results of the Board evaluation relating to composition;
- Review the time requirements for Directors; and
- Recommend the membership of Board Committees.

Activity

The Committee met four times during the year ended 31 March 2018 and considered the following matters:

- The selection process for the appointment of a new director to replace Robert Sinclair;
- The appointment of external consultants to compile a list of candidates;
- The formation of a working group of the Committee to manage the recruitment process and work with the consultants;
- Consideration of the final shortlist of candidates and a final recommendation:
- Future composition of the Board; and
- Succession planning.

> We believe that the Board should comprise both executive and non-executive directors. We consider that this will improve the accountability of the executives to shareholders.

Appointment of new non-executive director

During the year the Committee focused on the selection and appointment of a new director to replace Robert Sinclair, who intends to retire from the Board during 2018. We appointed independent executive search consultants Heidrick & Struggles and provided them with a detailed description of the role and the capabilities required for it. The consultants prepared a list of potential candidates, both male and female, which was assessed by the Committee for suitability to the role. This long list of five candidates met initially with the Chairman of the Committee and following this a final shortlist of three candidates were interviewed initially by the Chairman, and subsequently by a panel comprising two Directors and a member of senior management. The whole Committee then considered the feedback from both stages before recommending to the Board that Mark Batten be appointed.

Board composition

As stated above, with management and control of the Company in the UK, we believe that the Board should comprise both executive and non-executive directors. We consider that this will improve the accountability of the executives to shareholders. In the Corporate Governance report we have set out how the Board and its Committees will operate under the proposed changes. Michael Morris, already on the Board as a non-executive, will become an executive director and the Group's Chief Executive. Furthermore, we propose to appoint Andrew Dewhirst, currently the Finance Director of Picton Capital Limited, to the Board as an executive director.

Robert Sinclair will retire from the Board this year and will not put himself forward for re-election at the forthcoming Annual General Meeting. Mark Batten will take over as Chairman of the Audit and Risk Committee once this year's annual audit has been completed.

Vic Holmes has notified the Board that he intends to step down as a Director prior to the Company moving its management to the UK. The Committee has prepared a specification of the role, which will include Chairman of the Remuneration Committee, and has appointed Heidrick & Struggles to assist with the selection process. The Committee intends to make a recommendation to the Board regarding a new appointment before the end of September 2018.

Tenure

The Board considers that the length of time each Director, including the Chairman, serves on the Board should not be limited and therefore has not set a finite tenure policy. However, the Board has determined that any Director who has served for more than nine years will offer themselves for reappointment on an annual basis.

Diversity policy

The Company is committed to treating all employees equally and considers all aspects of diversity, including gender, when considering recruitment at any level of the business. We aim to maintain the right blend of skills, experience and knowledge in the Board and investment management team. The Company recognises the benefits of diversity but the Board does not consider that diversity quotas are appropriate in determining its composition. All candidates are considered on merit.

Nicholas Thompson
Chairman of the Nominations Committee
4 June 2018

AUDIT AND RISK COMMITTEE REPORT

ROBERT SINCLAIR

The Audit and Risk Committee is chaired by Robert Sinclair. The other members of the Committee are Nicholas Thompson, Roger Lewis, Vic Holmes and Mark Batten.

Robert Sinclair has confirmed that he will be retiring from the Board this year. Mark Batten will take over as chairman of the Audit and Risk Committee from then. Meetings of the Audit and Risk Committee are attended by the Finance Director of Picton Capital Limited and another member of the finance team, and the external auditor. The external auditor is given the opportunity to discuss matters without management presence.

Terms of reference

The Committee's terms of reference include consideration of the following issues:

- Financial reporting, including significant accounting judgements and accounting policies;
- Adoption of the Group's Risk Management Policy;
- Monitoring and evaluating the risks relating to the Group;
- Evaluation of the Group's risk profile and risk appetite, and whether these are aligned with its investment objectives;
- Internal controls and risk management systems;
- Ensuring that key risks are being effectively measured, managed and mitigated;
- The Group's relationship with the external auditor, including effectiveness and independence;
- Internal audit and the programme of controls testing; and
- Reporting responsibilities.

Activity

The Audit and Risk Committee met twice during the year ended 31 March 2018 and considered the following matters:

- External audit strategy and plan;
- Audit and accounting issues of significance;
- The Annual and Interim Reports of the Group;
- Reports from the external auditor;
- The Group's Risk Management Policy;
- The effectiveness of the audit process and the independence of KPMG Channel Islands Limited;
- Review of the Risk Matrix and mitigating controls; and
- Stock Exchange announcements.

Financial reporting and significant reporting matters

The Committee considers all financial information published in the annual and half-year financial statements and considers accounting policies adopted by the Group, presentation and disclosure of the financial information and the key judgements made by management in preparing the financial statements.

The Directors are responsible for preparing the Annual Report. At the request of the Board, the Committee considered whether the 2018 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

The key area of judgement that the Committee considered in reviewing the financial statements was the valuation of the Group's investment properties.

The valuation is conducted on a quarterly basis by independent valuers, and is subject to oversight by the Property Valuation Committee. It is a key component of the annual and half year financial statements and is inherently subjective, requiring significant judgement. Members of the Property Valuation Committee, together with the Investment Manager, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including the year end valuation process. The Chairman of the Property Valuation Committee reported to the Audit and Risk Committee at its meeting in May 2018 and confirmed that the following matters had been considered in discussions with the independent valuers:

- Property market conditions;
- Yields on properties within the portfolio;
- Letting activity and vacant properties;
- Covenant strength and lease lengths;
- Estimated rental values; and
- Comparable market evidence.

The Audit and Risk Committee reviewed the report from the Chairman of the Property Valuation Committee including the assumptions applied to the valuation and considered their appropriateness, as well as considering current market trends and conditions, and valuation movements compared to previous quarters. The Committee considered the valuation and agreed that this was appropriate for the financial statements. The Committee was satisfied that the 2018 Annual Report is fair, balanced and understandable and included the necessary information as set out above, and it has confirmed this to the Board.

Risk management policy

The Committee has considered and adopted a Risk Management Policy for the Group.

The purpose of the Risk Management Policy is to strengthen the proper management of risks through proactive risk identification, risk management, and risk acceptance pertaining to all activities undertaken by the Group. The Risk Management Policy is intended to:

- Ensure that major risks are reported to the Board for review and acceptance;
- Result in the management of those risks that may significantly affect the pursuit of the stated strategic goals and objectives;
- Embed a culture of evaluation and identifying risks at multiple levels within the Group; and
- Meet legal and regulatory requirements.

Internal controls

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. It has therefore established a process designed to meet the particular needs of the Company in managing the risks to which it is exposed.

As part of this process, a risk matrix has been prepared that identifies the Company's key functions and the individual activities undertaken within those functions. From this, the Board has identified the Company's principal risks and the controls employed to manage those risks. These are reviewed at each Audit and Risk Committee meeting. Also, the Committee has agreed a programme of additional controls testing which is carried out by the external auditor, in order to provide the Board with comfort that the controls are operating as intended and have been in place throughout the year. The Board also monitors the investment performance of the Company against its objectives and receives reports from the Investment Manager and Administrator each quarter on their activities. The Committee has received and reviewed a copy of CBRE Limited's Real Estate Accounting Services – Service Organisation Control Report as at 31 December 2017, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of property management accounting services provided to Picton Capital Limited.

Given the scale of the Group's operations, the Board has determined that a separate internal audit function is unnecessary and that additional procedures carried out by the external auditor in conjunction with the audit of the Group's accounts will provide the Board with sufficient assurance regarding the internal control systems in place.

Independence of auditor

It is the policy of the Group that non-audit work will not be awarded to the external auditor if there is a risk their independence may be conflicted. The Committee monitors the level of fees incurred for non-audit services to ensure that this is not material, and obtains confirmation, where appropriate, that separate personnel are involved in any non-audit services provided to the Group. The Committee must approve in advance all non-audit assignments to be carried out by the external auditor.

The fees payable to the Group's auditor and its member firms are as follows:

	2018 £000	2017 £000
Audit fees	108	108
Interim review fees	14	14
Non-audit fees	27	23
	149	145

The non-audit fees include £14,000 for additional controls testing and £7,000 for liquidation fees, carried out by KPMG Channel Islands Limited, and £6,000 in respect of the Picton Capital Limited FCA CASS review, carried out by KPMG LLP.

Annual auditor assessment

On an annual basis, the Committee assesses the qualifications, expertise and independence of the Group's external auditor, as well as the effectiveness of the audit process. It does this through discussion and enquiry with senior management, review of a detailed assessment questionnaire and confirmation from the external auditor. The Committee also considers the external audit plan, setting out the auditor's assessment of the key audit risk areas and reporting received from the external auditor in respect of both the half year and year end reports and accounts.

As part of the review of auditor independence and effectiveness, KPMG Channel Islands Limited has confirmed that:

- They have internal procedures in place to identify any aspects of non-audit work which could compromise their role as auditor and to ensure the objectivity of the audit report;
- The total fees paid by the Group during the year do not represent a material part of their total fee income; and
- They consider that they have maintained their independence throughout the year.

In evaluating KPMG Channel Islands Limited the Committee completed its assessment of the external auditor for the financial period under review. It has satisfied itself as to their qualifications and expertise and remains confident that their objectivity and independence are not in any way impaired by reason of the non-audit services which they provide to the Group.

KPMG Channel Islands Limited have been auditor to the Group since the year ended 31 December 2009 following a tender process in July 2009. The current audit engagement partner, Deborah Smith, took over this role for this year's audit from Neale Jehan, who had previously served five years as audit partner.

The Committee recommends that KPMG Channel Islands Limited are recommended for reappointment at the next Annual General Meeting.

Robert Sinclair
Chairman of the Audit and Risk Committee
4 June 2018

Property valuation committee report

Roger Lewis

The Property Valuation Committee is chaired by Roger Lewis. The other members of the Committee are Nicholas Thompson, Robert Sinclair, Vic Holmes and Mark Batten.

Terms of reference

The Committee shall review the quarterly valuation reports produced by the independent valuers before their submission to the Board, looking in particular at:

- Significant adjustments from previous quarters;
- Individual property valuations;
- Commentary from the Investment Manager;
- Significant issues that should be raised with the Investment Manager;
- Material and unexplained movements in the Company's net asset value;
- Compliance with applicable standards and guidelines;
- Reviewing findings or recommendations of the valuers; and
- The appointment, remuneration and removal of the Company's valuers, making such recommendations to the Board as appropriate.

CBRE Limited was appointed as the external valuer to the Group, effective from 31 March 2013, and carries out a valuation of the Group's property assets each quarter.

Activity

The Committee met four times during the year ended 31 March 2018. Members of the Property Valuation Committee, together with the Investment Manager, met with the independent valuer each quarter to review the valuations and considered the following matters:

- Property market conditions and trends;
- Movements compared to previous quarters;
- Yields on properties within the portfolio;
- Letting activity and vacant properties;
- Covenant strength and lease lengths;
- Estimated rental values; and
- Comparable market evidence.

The Committee was satisfied with the valuation process throughout the year.

External valuer

CBRE Limited was appointed as the external valuer to the Group, effective from 31 March 2013, and carries out a valuation of the Group's property assets each quarter, the results of which are incorporated into the Group's half year and annual financial statements, and the quarterly net asset statements.

Roger Lewis
Chairman of Property Valuation Committee
4 June 2018

CBRE

The Directors
Picton Property Income Limited
PO Box 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 3QL

23 April 2018

Dear Sirs

Picton property portfolio — valuation as at 31 March 2018

In accordance with the terms of our appointment as External Valuers to Picton Property Income Limited, we have valued the freehold and leasehold properties in which the Fund has an interest as at 31 March 2018, for accounting purposes. Our valuations have been prepared on the basis of 'Fair Value' in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and RICS valuation - Professional Standards UK January 2014 (Revised April 2015). We confirm that the 'Fair Value' reported above, for the purpose of financial reporting under International Financial Reporting Standards (IFRS) and UK Generally Accepted Accounting Practice (UK GAAP), is effectively the same as 'Market Value'.

On the basis, assumptions, terms and conditions as set out within our Valuation Report dated 16 April 2018, we are of the opinion that the aggregate values of the properties we value in the Picton investment property portfolio, as at 31 March 2018, is £683,800,000 (SIX HUNDRED AND EIGHTY THREE MILLION EIGHT HUNDRED THOUSAND POUNDS), exclusive of VAT.

Our opinion of Market Value was derived using comparable recent market transactions on arm's length terms.

The total fees, including the fee for this assignment, earned by CBRE Limited (or other companies forming part of the same group of companies within the UK) from the Addressee (or other companies forming part of the same group of companies) is less than 5.0% of their total UK revenues.

This letter is for the use only of the party to whom it is addressed for the specific purpose set out herein and no responsibility is accepted to any third party for the whole or any part of its contents.

Yours faithfully

Nick Knight MRICS

Executive Director
RICS Registered Valuer
For and on behalf of CBRE Limited

Remuneration report

Vic Holmes

The Remuneration Committee is chaired by Vic Holmes. The other members of the Committee are Nicholas Thompson, Mark Batten, Roger Lewis and Robert Sinclair.

Terms of reference

The Committee shall consider the following matters:

- Appointment of, and setting the terms of reference for, any remuneration consultants;
- Recommending remuneration levels for the non-executive Directors to the Board;
- Recommending remuneration policies to the Board for Directors and senior management of Picton Capital Limited; and
- Reviewing remuneration trends across the sector.

If shareholders approve proposals for the Company to enter the UK REIT regime, these terms of reference will be reviewed to ensure they are appropriate for a Board structure comprising both executive and non-executive directors.

Advisers

During the year, Deloitte LLP has provided independent advice in relation to non-executive director fee levels, share valuations, share plan administration and remuneration implications of UK REIT conversion. Total fees for the year were £16,968. Deloitte LLP is a founding member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. In addition Deloitte also provided taxation services and advice to the Company during the year. The Committee has reviewed the nature of this additional advice and is satisfied that it does not compromise the independence of the advice that it has received.

Dear Shareholders

On behalf of the Board, I am pleased to introduce the Remuneration Committee report for the year ended 31 March 2018. This report represents a transition period in the evolution of the Company. As has been explained earlier in the Annual Report, we will be bringing forward to shareholders proposals to enter the UK REIT regime from 1 October 2018, and, linked with this, to change the listing status of the Company from that of an investment company to a commercial company, which is in keeping with most internally managed UK REITs. Subject to these changes being approved, we will move to a more traditional Board structure comprising executive and non-executive directors. With this in mind, the Committee has prepared and the Board has approved a new directors' remuneration policy which will be put to shareholders at the Annual General Meeting. As a Guernsey registered company we intend to comply voluntarily with the relevant UK regulations regarding executive remuneration in order to provide transparency to our shareholders.

This report therefore comprises three sections:

- This introductory letter;
- The proposed new Directors' Remuneration policy; and
- The Annual Report on Remuneration for the year ended 31 March 2018.

The Committee met three times during the year and set out here is a summary of its activity.

Picton Capital Limited salary review and bonus awards

The financial results for the year were very strong. The overall profit for the year was £64 million, giving a total return of nearly 15%, an improvement on last year's figures of £43 million and 10% respectively. The property portfolio outperformed the IPD Quarterly Benchmark for the year and also over longer time periods. Our EPRA earnings per share grew by 10% compared to last year, to 4.2 pence per share.

The Committee considered the salary review and annual bonuses for the investment management team for 2018 and received an independent benchmarking report covering all of the roles within the team. The Committee also took into account the key performance indicators for the year and individual and team objectives set at the start of the year. In conclusion, the Committee agreed that there would be an average increase in base salaries of 6.6% from 1 April 2018 (2017: nil), and that the overall annual bonus awards for this team (including the Deferred Bonus element) would be 110% of base salaries (2017: 102%).

For the year ended 31 March 2018, the Committee agreed that annual bonuses awarded to Picton Capital staff would total £550,000 payable on 30 April 2018 (2017: £537,000) and £483,000 in Deferred Bonus Scheme awards (2017: £555,000). The Deferred Bonus Scheme awards were made at the prevailing share price, and equate to 572,000 units, which vest on 31 March 2020. The cost to the Group of awards made is spread over the vesting periods in accordance with its accounting policy. The accrued cost of the Deferred Bonus Scheme at 31 March 2018 was £1,304,000 (2017: £1,177,000). A summary of the awards made to Picton Capital Limited staff is set out in Note 7 to the financial statements.

Long-term Incentive Plan

This year the Committee considered and recommended the second round of awards under the Long-term Incentive Plan, awarded in June 2017. The LTIP provides the link between the long-term success of the Company and the remuneration of the management team. The awards are conditional on achieving three performance metrics measured over the three year period from 1 April 2017 to 31 March 2020. These metrics are:

- Total shareholder return measured against a bespoke comparator group of similar companies;
- Total property return measured against the MSCI IPD Quarterly Benchmark; and
- Growth in EPRA earnings per share compared to absolute targets.

> As a Guernsey registered company we intend to comply voluntarily with the relevant UK regulations regarding executive remuneration in order to provide transparency to our shareholders.

The Committee reviewed both the performance conditions and the comparator group and recommended that these remained unchanged for the 2017 awards.

Awards totalling 1,036,895 shares were made to the investment management team following the Committee's recommendation. These awards will vest in 2020 subject to meeting the performance conditions.

Remuneration policy

As stated above, the Committee has considered a new remuneration policy for Directors. Although the Board currently only comprises non-executive directors, the Committee agreed that, ahead of the Company potentially moving its management to the UK, it should prepare a remuneration policy which extends to executive directors in the interests of transparency for shareholders. In particular we have considered a new framework for determining annual variable remuneration for executives, and this is set out in the new policy, which was independently reviewed by Deloitte.

In preparing the policy the Committee has received a benchmarking report comparing the remuneration levels of its senior management to other similar real estate companies. As basic salaries are low relative to market the Committee has concluded that variable remuneration potential for any newly appointed executive director would be set at a level to ensure that the total remuneration package for executive directors is competitive but with a greater emphasis on performance related elements.

Implementation of policy

Should the proposals to move central management to the UK be approved, we intend to apply the new policy for the newly appointed executive directors, and report against that policy in next year's Annual Report.

For the annual bonus awards in respect of the year ended 31 March 2019, 54% of the maximum award potential would be based equally on three financial metrics. These are:

- Total Property Return (TPR);
- Growth in EPRA earnings per share; and
- Total Return (TR)

The remaining 46% of the maximum award potential would be based on a mixture of corporate and personal measures. These measures are aligned with the Company's annual objectives.

All targets are commercially sensitive and in the view of the Committee would not induce excessive risk taking. They would be disclosed in next year's Annual Report to the extent that they are no longer commercially sensitive at that time.

The Committee intends that up to 50% of each executive director's annual bonus will be paid in shares and deferred for a period of two years. This represents a change from previous practice whereby deferral was into units in the Deferred Bonus Scheme with settlement in cash.

The Committee will make Long-term Incentive Plan awards to all employees following the publication of its 31 March 2018 results. These awards will be for the three year performance period from 1 April 2018 to 31 March 2021. The performance conditions and targets for these awards will be unchanged from those applied to the 2017 awards, as set out later in this report.

As the Company has no executive directors at the date of this report, the Committee has not set out an illustration of the application of the policy for the year ended 31 March 2019.

Non-executive fee review

Historically we have appointed independent consultants to review the level of non-executive directors' fees on a regular basis, usually every three years. The last independent review took place in 2014, and the Committee considered that it was appropriate to carry out a further review this year. The Committee appointed Deloitte to compare the current level of fees against a benchmark group of similar companies, both internally and externally managed. Following the review the Committee recommended the following new fees rates should apply, as from 1 January 2018.

	New annual rate from 1 January 2018 (£)	Annual rate until 31 December 2017 (£)
Chairman	98,000	82,500
Chairman of the Audit and Risk Committee	47,500	43,000
Chairman of the Property Valuation Committee	45,000	40,000
Chairman of the Remuneration Committee	45,000	40,000
Director	40,000	36,000

As a Committee, we are committed to ongoing dialogue with our shareholders. We hope to receive your support for our proposed new Remuneration Policy at the forthcoming Annual General Meeting.

Vic Holmes
Chairman of the Remuneration Committee

4 June 2018

DIRECTORS' REMUNERATION POLICY

The objective of the Group's remuneration policy is to have a simple and transparent remuneration structure aligned with the Group's strategy.

The Group aims to provide a remuneration package which will retain Directors who possess the skills and experience necessary to manage the Group and maximise shareholder value on a long-term basis. The remuneration policy aims to incentivise Directors by rewarding performance through enhanced shareholder value.

As the Company has no executive directors at the date of this report, the Committee has not set out an illustration of the application of the policy for the year ended 31 March 2019.

Executive Directors' Remuneration Policy Table

BASE SALARY	
Purpose	A base salary to attract and retain executives of appropriate quality to deliver the Group's strategy.
Operation	Basic salaries are normally reviewed annually with changes effective on 1 April. When setting base salaries the Committee will consider relevant market data, as well as the scope of the role and the individual's skills and experience.
Maximum	No absolute maximum has been set for executive Director base salaries. Any annual increase in salaries is set at the discretion of the Remuneration Committee taking into account the factors stated in this table and the following principles: ■ Salaries would typically be increased at a rate consistent with the average employee salary increase. ■ Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). ■ Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary.
Performance measures	None
Clawback	None

PENSION	
Purpose	Part of competitive remuneration package.
Operation	The Company has established defined contribution pension arrangements for all employees. For executive directors the Company pays a monthly salary supplement in lieu of Company pension contributions.
Maximum	The salary supplement is set at 15% of base salary.
Performance measures	None
Clawback	None

BENEFITS	
Purpose	Part of competitive remuneration package.
Operation	This principally comprises: • Private medical insurance • Life assurance • Permanent health insurance The Committee may agree to provide other benefits as it considers appropriate.
Maximum	Benefits are provided at market rates.
Performance measures	None
Clawback	None

ANNUAL BONUS	
Purpose	A short-term incentive to reward executive directors on meeting the Company's annual financial and strategic targets and on their personal performance.
Operation	The Committee may determine that up to 50% of the annual bonus will be paid in the Company's shares and deferred for two years. Dividend equivalents will be paid at the end of the deferral period in cash.
Maximum	The maximum bonus will be 175% of base salary.
Performance measures	The annual bonus is based on a range of one-year financial, strategic and individual targets set by the Committee at the beginning of each year. The weightings will also be determined annually to ensure alignment with the Company's strategic priorities although at least 50% of the award will be assessed on corporate financial measures. For corporate financial measures, 50% of the maximum bonus opportunity will be payable for on target performance and, if applicable, up to 25% for threshold performance.
Clawback	Malus and clawback provisions apply.

LONG-TERM INCENTIVE PLAN	
Purpose	A long term incentive plan to align executives' interests with those of shareholders and to promote the long-term success of the Company.
Operation	Awards are granted annually in the form of a conditional share award or nil cost option. Awards will normally vest at the end of a three year period subject to meeting the performance conditions and continuing employment. The Remuneration Committee may award dividend equivalents on awards that vest and may also apply a holding period of a further two years to vested awards.
Maximum	Annual awards with a maximum value of up to 150% of base salary may be made
Performance measures	There will initially be three performance conditions each measured over a three year performance period. Each condition will be equally weighted, but the Committee has the flexibility to vary this. For threshold levels of performance 25% of the award vests, rising to 100% for maximum performance.
Clawback	Malus and clawback provisions apply.

SHAREHOLDING GUIDELINES	
Purpose	To align executive directors with the interests of shareholders.
Operation	Executive directors are expected to build up and thereafter maintain a minimum shareholding equivalent to 200% of basic salary.
Maximum	Not applicable
Performance measures	Not applicable
Clawback	Not applicable

Non-executive Directors Policy Table

FEES	
Purpose	To provide competitive director fees.
Operation	Annual fee for the Chairman, and annual base fees for other non-executives. Additional fees for those directors with additional responsibilities chairing a Board Committee. All fees will be payable quarterly in arrears in cash. Fees will usually be reviewed independently every three years. The independent non-executive Directors are not eligible to receive share options or other performance related elements, or receive any other benefits other than where travel to the Company's registered office is recognised as taxable benefit in which case a non-executive may receive the grossed-up costs of travel as a benefit. Non-executive Directors are entitled to reimbursement of reasonable expenses.
Maximum	The Company's Articles set an annual limit for the non-executive Directors' remuneration of £300,000.
Performance measures	None
Clawback	None

Notes

1) The Committee may amend or substitute any performance condition(s) if one or more events occur which cause it to determine that an amended or substituted performance condition would be more appropriate, provided that any such amended or substituted performance condition would not be materially less difficult to satisfy than the original condition (in its opinion). The Committee may adjust the calculation of performance targets and vesting outcomes (for instance for material acquisitions, disposals or investments and events not foreseen at the time the targets were set) to ensure they remain a fair reflection of performance over the relevant period. The Committee also retains discretion to make downward or upward adjustments resulting from the application of the performance measures if it considers that the outcomes are not a fair and accurate reflection of business performance. In the event that the Committee was to make an adjustment of this sort, a full explanation would be provided in the next Remuneration Report.

2) Performance measures – annual bonus. The annual bonus measures are reviewed annually and chosen to focus executive rewards on delivery of key financial targets for the forthcoming year as well as key strategic or operational goals relevant to an individual. Specific targets for bonus measures are set at the start of each year by the Remuneration Committee based on a range of relevant reference points, including, for Group financial targets, the Company's business plan and are designed to be appropriately stretching.

3) The Committee may amend the terms of awards granted under the share schemes referred to above in accordance with the rules of the relevant plans.

4) Performance measures – LTIP. The LTIP performance measures will be chosen to provide alignment with our longer-term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company. Targets are considered ahead of each grant of LTIP awards by the Remuneration Committee taking into account relevant external and internal reference points and are designed to be appropriately stretching.

5) The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before the policy set out above came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

6) The Committee may make minor amendments to the Remuneration Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

Service contracts

Executive directors will have service contracts, comprising the remuneration elements set out within this policy. There will be no fixed length of service but the contracts can be terminated by either party by giving the other notice in writing for a period not exceeding 12 months. In the event of the appointment of executive directors full details of service contracts will be disclosed in next year's Annual Report.

On termination the applicable payments for each element of remuneration is set out below.

The executive service contracts will be available for inspection at the Company's registered office.

Letters of appointment

Each independent non-executive Director has a letter of appointment which sets out the terms and conditions. They have a six month notice period and their appointment would terminate without compensation if not re-elected at the Annual General Meeting. The independent Directors have no service contracts or interests in any material contracts with the Group.

Recruitment

The remuneration package for a new executive Director would follow, as far as practicable, the above Policy Table. Salaries would reflect the skills and experience of the individual, and may be set at a level to allow progression and performance in the role. The structure of the variable remuneration elements would reflect those in the Policy Table. However the Committee may flex the balance between annual and long-term incentives and the measures used to assess performance. If appropriate, different measures and targets may be applied to a new appointment's annual bonus in their year of joining. Variable pay would be subject to the maximums set out in the Policy Table.

Where an executive Director is an internal promotion, the normal policy is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an executive Director is appointed following the Company's acquisition of or merger with another company, legacy terms and conditions would be honoured.

Remuneration arrangements for a new non-executive director would be consistent with the above Policy.

The Committee may agree to make compensatory payments for any remuneration arrangements subject to forfeit on leaving a previous employer. This would be considered for each specific case, taking into account any relevant factors relating to the recruitment. There is no limit on such payments, but the Committee would not intend to pay more than the commercial value forfeited. If necessary, the Committee may grant such awards under Listing Rule 9.4.2 R.

Policy for other employees

Remuneration for other employees broadly follows the same principles as for executive Directors. A significant element of remuneration is linked to performance measures. All employees currently participate in the Long-term Incentive Plan, and in the annual bonus. The weighting of individual and corporate measures are dependent on an individual's role.

The Committee does not formally consult with employees when determining executive Director pay. However, the Committee is kept informed of general management decisions made in relation to employee pay and is conscious of the importance of ensuring that its pay decisions for executive Directors are regarded as fair and reasonable within the business.

Policy for payment on loss of office

On cessation of employment of an executive director the Committee will honour any contractual arrangements in place. The Committee may make any other payments in connection with loss of office in discharge of legal obligations or by way of a compromise or settlement of any claim arising. This may include reasonable amounts for outplacement assistance and professional or legal advice.

The Committee may, at its discretion, make an annual bonus payment for the year of cessation depending on the reason for leaving. The Committee will take into consideration appropriate performance measures which may include the individual's performance and contribution during the year, and the Group's financial results. The bonus would usually be time pro-rated and may be settled wholly in cash.

The treatment of outstanding deferred bonus and Long-term Incentive Plan awards will be governed by the relevant plan rules. In both cases unvested awards will normally lapse unless the participant is determined to be a good leaver. The vesting date for a good leaver's awards will normally be the original vesting date, but the Committee has the flexibility to determine that awards may vest at an earlier date. The Committee's determination of the extent to which a good leaver's LTIP awards should vest will take into account the extent to which performance conditions are met either at the date of cessation of employment or the end of the original performance period and, unless the Committee determines otherwise, will be adjusted on a time pro-rated basis. Where an individual leaves after the vesting date but before the end of any holding period, they will retain their LTIP awards unless summarily dismissed.

Consideration of shareholder views

We consulted with major shareholders in advance of the introduction of the Long-term Incentive Plan in November 2016, and amended the terms of the proposed plan as a result of feedback received. We welcome any shareholder feedback on the remuneration policy being proposed at this year's Annual General Meeting.

ANNUAL REPORT ON REMUNERATION

Total remuneration for the year

All of the current Directors of the Company are non-executive. Michael Morris does not receive a fee as a Director of the Company but is remunerated in his capacity as Chief Executive of Picton Capital Limited.

The table below sets out the total remuneration receivable by each of the Directors who held office during the year to 31 March 2018, with a comparison to the previous financial year.

	31 March 2018 £	31 March 2017 £
Nicholas Thompson	**86,375**	82,500
Robert Sinclair	**44,125**	43,000
Roger Lewis	**41,250**	40,000
Vic Holmes	**41,250**	40,000
Mark Batten	**19,000**	–
Michael Morris	**–**	–
	232,000	205,500

The table below shows the remuneration earned by Michael Morris, as Chief Executive of Picton Capital Limited, for the year ended 31 March 2018.

	31 March 2018 £	31 March 2017 £
Basic salary	**227,000**	227,000
Salary supplement (in lieu of pension contributions)	**34,050**	34,050
Annual bonus awarded – cash element	**135,135**	114,700
Annual bonus awarded – deferred element	**165,165**	171,600
Long-term Incentive Plan – equity settled	**160,489**	54,006
	721,839	601,356

Michael Morris's bonus for the year ended 31 March 2018 was determined by the Committee taking into account the key performance indicators and his individual objectives set for the year. If shareholders approve proposals for the Company to enter the UK REIT regime, the Company will move to a more traditional Board structure comprising executive and non-executive directors and, as a consequence, next year's Remuneration Report will contain full retrospective details of how the executive directors' annual bonuses for the year ended 31 March 2019 were determined.

The above deferred element of the annual bonus acquired 195,925 units in the Deferred Bonus Scheme (2017: 204,896 units) as set out on the next page.

The above Long-term Incentive Plan figures represent the amounts charged to the Income Statement in the year based on the initial fair values of the outstanding awards and the estimated likelihood of the awards vesting.

Michael Morris has the following outstanding units in the Deferred Bonus Scheme:

Date of award	Vesting date	Unit value on date of grant	Units at 1 April 2017	Units granted in year	Units vested in year	Units at 31 March 2018
1 April 2015	31 March 2018	71.75p	112,892	-	(112,892)	-
1 April 2016	31 March 2018	69.75p	116,129	-	(116,129)	-
1 April 2016	31 March 2019	69.75p	116,129	-	-	116,129
1 April 2017	31 March 2019	83.75p	204,896	-	-	204,896
1 April 2018	31 March 2020	84.30p	-	195,925	-	195,925
			550,046	**195,925**	**(229,021)**	**516,950**

The units which vested in the year were subsequently paid out after the year end in cash for £214,387.

Long-term Incentive Plan

On 16 June 2017 Michael Morris was awarded a conditional share award in relation to his role as Chief Executive of Picton Capital Limited, as follows:

Number of shares	Basis (% of salary)	Face value per share (£)	Award face value (£)	Performance period	Threshold vesting
334,150	125%	0.84917	283,750	1 April 2017 to 31 March 2020	25%

The face value is based on a weighted average price per share, being the average of the closing share prices over the three business days immediately preceding the award date. Awards will vest after three years subject to continued service and the achievement of the performance conditions set out opposite.

Michael Morris has been granted the following outstanding awards under the Long-term Incentive Plan.

Date of grant	Performance period	Market value on date of grant	At 1 April 2017	Granted in year	Vested in year	At 31 March 2018
27 January 2017	1 April 2016 to 31 March 2019	79.085p	358,791	-	-	358,791
16 June 2017	1 April 2017 to 31 March 2020	84.917p	-	334,150	-	334,150
			358,791	**334,150**	-	**692,941**

PERFORMANCE CONDITION	VESTING LEVEL
Total Shareholder Return (TSR) to exceed the median TSR of a bespoke comparator group of similar companies over the performance period	
TSR is less than the median	0%
TSR is equal to the median	25%
TSR is between the median and the upper quartile ranked company in the comparator group	Pro rata on a straight line basis between 25% and 100%
TSR is equal to or above the upper quartile ranked company in the comparator group	100%
Total Property Return (TPR) to exceed the median return of the MSCI IPD Quarterly Benchmark over the performance period	
TPR is less than the median	0%
TPR is equal to the median	25%
TPR is between the median and the upper quartile ranked fund in the Benchmark	Pro rata on a straight line basis between 25% and 100%
TPR is equal to or above the upper quartile ranked fund in the Benchmark	100%
Growth in EPRA earnings per share (EPS) over the performance period	
EPS growth is less than 3% per annum	0%
EPS growth is equal to 3% per annum	25%
EPS growth is between 3% and 9% per annum	Pro rata on a straight line basis between 25% and 100%
EPS growth is above 9% per annum	100%

Any LTIP vesting will also be subject to the Remuneration Committee confirming that, in its assessment, the vesting outturn was achieved within an acceptable risk profile

No LTIP awards vested during the year ended 31 March 2018.

Share ownership

Directors and employees are encouraged to maintain a shareholding in the Company's shares to provide alignment with investors, although in the case of Picton Capital Limited staff, alignment is also achieved through awards under the Deferred Bonus Scheme. A formal shareholding guideline will apply to any executive director as set out in the Remuneration Policy.

The numbers of shares beneficially held by each Director and senior management (including connected persons), as at 31 March 2018 are shown in the tables below:

	31 March 2018	31 March 2017
Nicholas Thompson *	**215,000**	215,000
Robert Sinclair	**15,000**	15,000
Roger Lewis	**600,000**	600,000
Vic Holmes	**27,214**	27,214
Michael Morris*	**53,596**	53,596
Mark Batten	-	-

Senior management	31 March 2018	31 March 2017
Andrew Dewhirst	**28,500**	24,000
Jay Cable	**9,505**	9,505
Fraser D'Arcy*	**8,687**	8,687

*Includes shares held by a connected person

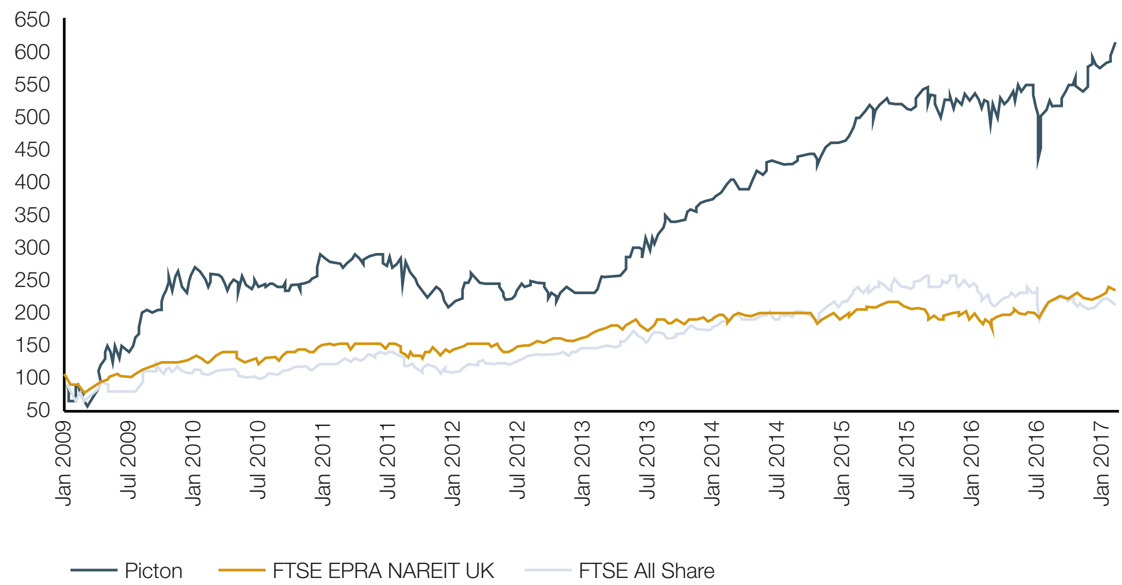
There have been no changes in these shareholdings between the year-end and the date of this report.

Payments to past directors or payments for loss of office

There were no payments to past Directors or payments for loss of office to Directors during the year ended 31 March 2018.

Historical total shareholder return performance

The graph below shows the Company's total shareholder return (TSR) since 2009 as represented by share price growth with dividends reinvested, against the FTSE All Share Index and the FTSE EPRA NAREIT UK Index. As the Company currently has no Chief Executive, there is no comparative pay data for this period.



Percentage change in remuneration of the Chief Executive
As the Company currently has no Chief Executive, this report does not contain a comparison of changes in the level of Chief Executive remuneration and of employee remuneration.

Relative importance of spend on pay
The table below shows the expenditure and percentage change on staff costs compared to other key financial indicators.

	31 March 2018 £000	31 March 2017 £000	% change
Staff costs[1]	**3,079**	2,992	3%
Dividends[2]	**18,487**	17,957	3%
EPRA earnings[3]	**22,625**	20,566	10%

[1] See Note 7 to the Consolidated Financial Statements
[2] See Note 11 to the Consolidated Financial Statements
[3] See EPRA Disclosures section of the Report

Statement of voting at the last Annual General Meeting
At the Annual General Meeting held on 8 November 2017 the Remuneration Report was approved by shareholders representing 22% of the issued share capital of the Company.

	Votes cast	%
For	121,333,412	99.95
Against	59,440	0.05
Withheld	-	-
	121,392,852	**100.0**

Vic Holmes
Chairman of the Remuneration Committee

4 June 2018

Directors' report

The Directors of Picton Property Income Limited present the Annual Report and audited financial statements for the year ended 31 March 2018.

The Company is a closed ended investment company and is registered under the provisions of the Companies (Guernsey) Law, 2008.

Principal activity

The principal activity of the Group is property investment with the objective of providing shareholders with an attractive level of income together with the potential for capital growth, by investing in a diversified UK commercial property portfolio.

With effect from 29 October 2008, the Company became regulated under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended). Under this regulation, the Company was deemed to be authorised by the Guernsey Financial Services Commission.

Results and dividends

The results for the year are set out in the Consolidated Statement of Comprehensive Income. As set out in Note 11 to the Consolidated Financial Statements, the Company has paid four interim dividends, three of 0.85 pence per share and one of 0.875 pence per share, making a total dividend for the year ended 31 March 2018 of 3.425 pence per share (2017: 3.325 pence).

Directors

The Directors of the Company who served throughout the year are set out on page 58.

The Directors' interests in the shares of the Company as at 31 March 2018 are set out in the Remuneration Report.

Listing

The Company is listed on the main market of the London Stock Exchange.

Share capital

The issued share capital of the Company as at 31 March 2018 was 540,053,660 (2017: 540,053,660) ordinary shares of no par value, including 1,070,000 ordinary shares which were acquired during the year by the Trustee of the Company's Employee Benefit Trust (2017: nil).

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the renewal of this authority from shareholders at each Annual General Meeting. Any buy-back of ordinary shares is, and will be, made subject to Guernsey law, and the making and timing of any buy-backs are at the absolute discretion of the Board. No ordinary shares were purchased under this authority during the year.

At the 2017 Annual General Meeting shareholders gave the Directors authority to issue up to 54,005,366 shares (being 10% of the Company's issued share capital as at 6 October 2017) without having to first offer those shares to existing shareholders. No ordinary shares have been issued under this authority during the year. This authority expires at this year's Annual General Meeting and a resolution will be proposed for its renewal.

Shares held in the Employee Benefit Trust

The Trustee of the Picton Property Income Limited Long-term Incentive Plan holds 1,070,000 ordinary shares in the Company in trust to satisfy awards made under the Long-term Incentive Plan. The Trustee has waived its right to receive dividends on these shares.

Statement of going concern

The Group's business activities, together with the factors affecting performance, investment activities and future development are set out in the Strategic Report. The financial position of the Group, including its liquidity position, borrowing facilities and debt maturity profile, is set out in the Financial Review and in the Consolidated Financial Statements.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis in preparing the financial statements.

Viability assessment and statement

The 2016 UK Corporate Governance Code requires the Board to make a 'viability statement' which considers the Company's current position and principal risks and uncertainties combined with an assessment of the future prospects for the Company, in order that the Board can state that the Company will be able to continue its operations over the period of their assessment.

The Board conducted this review over a five year timescale, considered to be the most appropriate for long-term investment in commercial property. The assessment has been undertaken, taking into account the principal risks and uncertainties faced by the Group which could impact its investment strategy, future performance, loan covenants and liquidity.

The major risks identified as relevant to the viability assessment were those relating to a downturn in the UK commercial property market and the resultant impact on the valuation of the property portfolio, the level of rental income receivable and the subsequent effect on cash resources and financial covenants. The Board took into account the illiquid nature of the Company's property assets, the existence of long-term borrowings, the effects of significant falls in valuations and rental income on the ability to remain within financial covenants, maintain dividend payments and retain investors. These matters were assessed over the period to 31 March 2023, and will continue to be assessed over five year rolling periods.

In the ordinary course of business the Board reviews a detailed financial model on a quarterly basis, including forecast market returns. This model uses prudent assumptions regarding lease expiries, breaks and incentives. For the purposes of the viability assessment of the Group, the model has been adjusted to cover a five year period and is stress tested with a number of scenarios. These include significant falls in capital values (in line with previous market conditions), pessimistic assumptions around lease breaks and expiries, increased void periods and incentives, and increases in occupier defaults. The Directors consider that the stress testing performed was sufficiently robust that even under extreme conditions the Company remains viable.

Based on their assessment, and in the context of the Group's business model and strategy, the Directors expect that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period to 31 March 2023.

Alternative Investment Fund Managers Directive

The Group's activities currently fall within the scope of this Directive, with the Company acting as the Alternative Investment Fund Manager (AIFM).

If the Company's proposals to change its technical listing status to that of a commercial company, as set out in the Chairman's Statement, are approved, the Group will no longer be subject to this legislation.

Non-mainstream pooled investments

The Company currently conducts its affairs so that its shares can be recommended by independent financial advisers to retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments and intends to continue to do so for the foreseeable future.

If the Company's proposals to convert to a UK REIT are approved, it will be exempt from these rules.

Substantial shareholdings

Based on notifications received and on information provided by the Company's brokers, the Company understands the following shareholders held a beneficial interest of 3% or more of the Company's issued share capital as at 15 May 2018.

	% of issued share capital
Investec Wealth & Investment Limited	16.1
Alliance Trust Savings Limited	6.8
Mattioli Woods Plc	5.4
Canaccord Genuity Wealth Management	5.3
BlackRock Inc.	3.8
Smith & Williamson Investment Management	3.4
Brooks MacDonald Asset Management	3.3
The Vanguard Group Inc.	3.3
Brewin Dolphin Limited	3.3
Transact Nominees Limited	3.1

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

KPMG Channel Islands Limited (the "Auditor") has expressed its willingness to continue in office as the Company's auditor and a resolution proposing its reappointment will be submitted at the Annual General Meeting.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards, as issued by the IASB, and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal controls as they determine are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement in respect of the annual report and financial statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By Order of the Board

Vic Holmes

4 June 2018